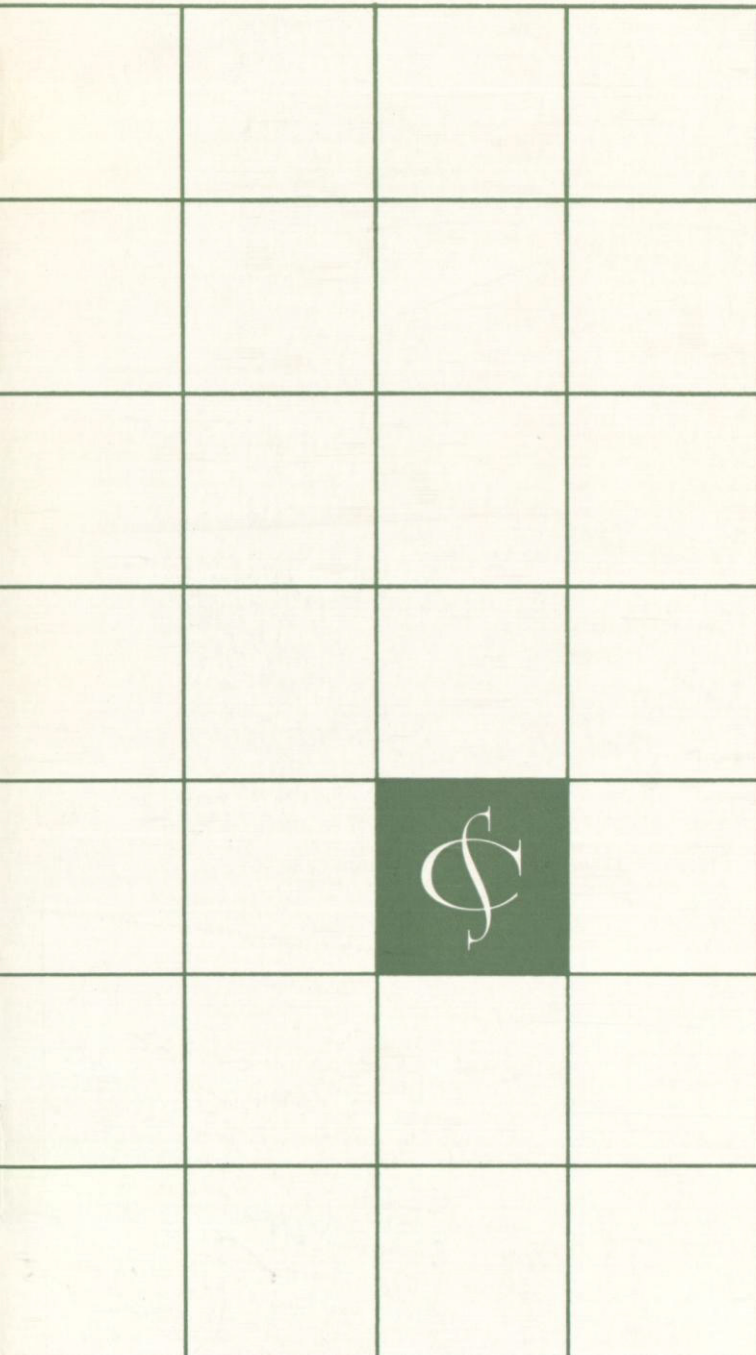


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CORPORATION FILE



ANNUAL REPORT

for the fiscal year ended January 29,

1966

CITY STORES COMPANY

BOARDS

Department Stores

LIT BROTHERS

J. P. Hansen, *President*

PENNSYLVANIA:

Philadelphia
69th Street (Upper Darby)
Northeast Philadelphia
Oregon Avenue (South Philadelphia)
Lawrence Park
Morrisville
Willow Grove
Plymouth Meeting*

NEW JERSEY:

Atlantic City
Camden
Trenton

MAISON BLANCHE

Isidore Newman, II, *Chairman of Board*
Eldridge P. Jones, *President*

LOUISIANA:

New Orleans
Carrollton
Gentilly
Airline Highway
West Side
Gentilly Woods

RICHARDS

Paul S. Walker, *President*

FLORIDA:

Miami
163rd Street
Miami Beach
Cutler Ridge
Palm Springs
Fort Lauderdale*
West Palm Beach**

LANSBURGH'S

Louis M. Frankel, *President*

DISTRICT OF COLUMBIA:

Washington

MARYLAND:

Langley Park

VIRGINIA:

Shirlington

LOVEMAN, JOSEPH & LOEB

John F. Breyer, *President*

ALABAMA:

Birmingham
Montgomery
Bessemer
Huntsville
Fairfield**

B. LOWENSTEIN & BROS.

Stanley H. Fried, *President*

TENNESSEE:

Memphis
East
South

KAUFMAN-STAUS

Richard J. Baker, *President*

KENTUCKY:

Louisville
Dixie Manor
The Mall (Shelbyville)

HEARN'S

Gwilym R. Thomas, *Executive Head*

NEW YORK:

Bronx

R. H. WHITE

Harold A. Broomfield, *President*

MASSACHUSETTS:

Worcester

CITYMART

MASSACHUSETTS:

Boston

Specialty Stores

FRANKLIN SIMON

Edwin G. Roberts, *President*

CONNECTICUT:

Milford
Westport

DELAWARE:

Wilmington

DISTRICT OF COLUMBIA:

Washington

GEORGIA:

Atlanta
Lenox Square
Greenbriar

MARYLAND:

Harundale Center
Mondawmin
Towson Center
Wheaton Plaza
Prince Georges Plaza

MASSACHUSETTS:

Boston
Natick

MICHIGAN:

Detroit
Northland Center
Eastland Center
Westland Center

MISSOURI:

Crestwood

NEW JERSEY:

East Orange
Eatontown
Hackensack
Haddonfield
Menlo Park
Morristown
Paramus

NEW YORK:

New York City
Buffalo — downtown and Thruway Plaza
Cross County
Garden City
Hicksville
Manhasset
Roosevelt Field
Valley Stream

NORTH CAROLINA:

Charlotte

OHIO:

Cleveland
Swifton
Richmond Mall*
Parmatown**

PENNSYLVANIA:

Philadelphia
Germantown
Willow Grove
Plymouth Meeting*

TENNESSEE:

Memphis

VIRGINIA:

Seven Corners

Home Furnishings Stores

W & J SLOANE

Leonard J. Novogrod, *President*

CALIFORNIA:

San Francisco
Los Altos
Sacramento
Walnut Creek
San Jose

CONNECTICUT:

Milford
Stamford
Westport†
Hartford

DISTRICT OF COLUMBIA:

Washington (2)
Spring Valley

NEW JERSEY:

Milburn
Ridgewood
Union†
Paramus*

NEW YORK:

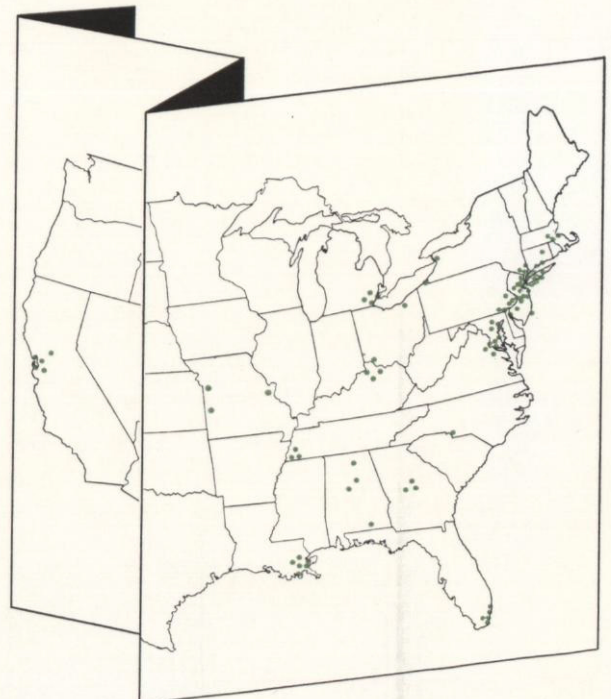
New York City
Forest Hills†
Garden City
Hempstead†
Manhasset
Riverdale†
White Plains
White Plains†

VIRGINIA:

Seven Corners

City Stores Company

operating in 19 states and
the District of Columbia



Junior Department Stores

KLINE'S

Jack C. Smith, *President*

MISSOURI:

Kansas City
Ward Parkway

† Clearance Centers

* To be opened in 1966

** To be opened in 1967

Directors

GUSTAVE G. AMSTERDAM
JAMES H. BECKER
MURRY C. BECKER
DAVID BORTIN
JOHN R. BUNTING, JR.
RALPH L. GOLDSMITH
ALBERT M. GREENFIELD
BRUCE H. GREENFIELD
JOSEPH A. W. IGLEHART
LOUIS G. MELCHIOR
ISIDORE NEWMAN, II
LEONARD J. NOVOGROD
THOMAS C. PILLION
MAX ROBB
SERGE SEMENENKO

Annual Report

for the fiscal year ended January 29,

1966

City Stores Company

Corporation Office

132 West 31st Street, New York, N. Y. 10001

New York Buying Office

Mutual Buying Syndicate, Inc.

11 West 42nd Street, New York, N. Y. 10036

Officers

GUSTAVE G. AMSTERDAM, *Chairman of the Board*
ISIDORE NEWMAN, II, *President*
LOUIS G. MELCHIOR, *Vice President and Treasurer*
JOHN F. BREYER, *Vice President*
LOUIS M. FRANKEL, *Vice President*
J. P. HANSEN, *Vice President*
ELDRIDGE P. JONES, *Vice President*
LEONARD J. NOVOGROD, *Vice President*
EDWIN G. ROBERTS, *Vice President*
PAUL S. WALKER, *Vice President*
IRVING J. ZIPIN, *Secretary and General Attorney*
J. KARL FISHBACH, *Corporate Controller and Assistant Treasurer*

Transfer Agent The Chase Manhattan Bank, New York, N. Y.

Co-Transfer Agent The First Pennsylvania Banking & Trust Company, Philadelphia, Pa.

Registrar Chemical Bank New York Trust Company, New York, N. Y.

Counsel Folz, Bard, Kamsler, Goodis & Greenfield, Philadelphia, Pa.

Auditors S. D. Leidesdorf & Co., New York, N. Y.

Annual Meeting Wednesday, May 18, 1966 • 11 A.M. (E.D.S.T.)
Statler Hilton Hotel, 7th Avenue at 32nd Street
New York, New York
Gold Ballroom

5/19/66 Hg R

Highlights

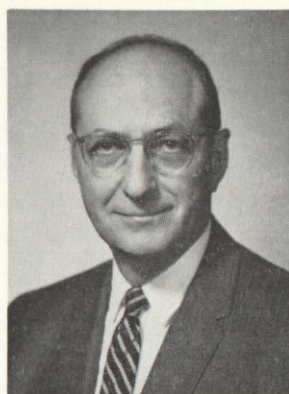
	YEAR (52 WEEKS) ENDED	
	January 29, 1966	January 30, 1965
<i>Operations*</i>		
Sales	\$335,557,000	\$325,045,000
Income before federal income taxes	8,405,000	3,493,000
Federal income taxes	3,980,000	1,400,000
Net income	4,425,000	2,093,000
Income per share	1.50	0.71
<i>Financial</i>		
Current assets	92,640,000	88,656,000
†Current liabilities	38,635,000	34,324,000
†Working capital	54,005,000	54,332,000
†Current ratio	2.4	2.6
Accounts receivable — net of receivables sold	49,929,000	64,535,000
Bank remittances on portion of receivables	14,014,000	29,427,000
Inventories	41,278,000	40,752,000
Property and equipment — net	34,295,000	35,830,000
Long term debt	16,530,000	20,928,000
<i>Ownership</i>		
Common stock equity	64,156,000	59,702,000
Common stock equity per share	21.67	20.18
Number of shares outstanding		
Common stock — at end of year	2,960,513	2,957,863

Italics denote negative figures.

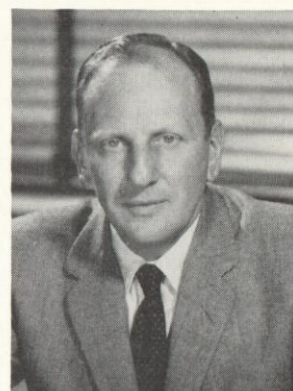
* Exclusive of extraordinary items which did not result from the usual or typical business operations of the period and have been credited or charged to income reinvested in business or to reserves.

† Restated — See third paragraph, page 3 of this report.

City Stores Company



GUSTAVE G. AMSTERDAM



ISIDORE NEWMAN, II

To the Stockholders:

We are pleased to report that the Company continued to make important progress in the fiscal year just ended. Sales for the fiscal year ended January 29, 1966 totaled \$335,557,000, reaching a new high. This was an increase of \$10,512,000 and 3.2% over sales in the prior year of \$325,045,000.

Profit before taxes more than doubled, rising from \$3,493,000 to \$8,405,000. After a federal income tax provision of \$3,980,000, net profit of \$4,425,000 was realized as compared to \$2,093,000 in 1964, an increase of 111%. Profit per share increased from \$.71 in 1964 to \$1.50 on a slightly larger number of shares. While provision of \$3,980,000 has been made for federal income taxes, actual cash outlay is estimated to be only \$1,500,000 due to the availability of loss carry-forwards and deferral of taxes.

Working capital, on a basis comparable to last year, increased \$1,500,000 to \$59,400,000. However, a new ruling of the Securities and Exchange Commission now requires that the reserve for deferred income taxes applicable to installment sales be carried as a current liability. The effect of the rule on the Company is to increase arbitrarily current liabilities by \$5,400,000 and to reduce working capital to \$54,000,000. We believe the SEC ruling runs counter to the major purpose for the deferment of taxes on installment sales as permitted by the Congress for over 50 years and that it is contrary to business logic. At the present time the National Retail Merchants Association is proceeding before the Commission in an attempt to revise the ruling.

The Company further reduced its long-term debt by \$4,400,000 to \$16,500,000 and again

ended the year with no short-term bank debt.

The past year has seen the renewal of the physical growth of the Company with still more stores planned for 1966 and 1967. Capital expenditures exceeded \$6,000,000 in 1965 and higher levels are anticipated in 1966 and 1967. These expenditures are necessary if the Company is to maintain its share of the various markets it serves and will be financed, in the most part, from internal sources.

Expansion programs of the Company completed or in the process of completion include the following:

Franklin Simon opened new stores in the Greenbriar Shopping Center in Atlanta and in the Westland Shopping Center in Detroit in 1965 and plans additional stores in 1966 in the Richmond Mall Shopping Center in Cleveland, the Natick Shopping Center near Boston and in the Plymouth Meeting Mall near Philadelphia. These are all enclosed mall, regional shopping centers.

W. & J. Sloane completed the expansion of its Fifth Avenue, New York store and opened a new store in Constitution Plaza in downtown Hartford, Connecticut. The White Plains, New York store has also been substantially enlarged. In 1966, Sloane's will open a full-line home-furnishings store in The Fashion Center near Paramus, New Jersey and another in the Washington, D. C. area.

Lit Brothers' new addition is under construction in the Plymouth Meeting Shopping Center. This 165,000 square foot store, which will open in the early Fall of this year, will serve the fast-growing northwest sector of the Philadelphia metropolitan area. Lit's is also actively studying several other sites around Philadelphia.

Loveman, Joseph & Loeb opened, in March of this year, its third branch, an 88,000 square foot store in the new Madison Mall Shopping Center in Huntsville, Alabama, with satisfying early results. Loveman's also has additional sites under consideration in the Birmingham area.

B. Lowenstein's new downtown store in Memphis is under construction and will open September 1, 1967. Contracts have also been let for a 40,000 square foot expansion of the Lowenstein's East branch store, which should greatly improve its ability to serve this important area.

Richards in Miami has added floors to its Cutler Ridge and 163rd Street stores and has 120,000 square foot stores under construction in shopping centers in Fort Lauderdale and West Palm Beach, Florida. The Fort Lauderdale store will open in late 1966 and the West Palm Beach store in Fall, 1967. Florida is one of our fastest growing trade areas.

Lansburgh's completed the remodeling of its Langley, Maryland store in the past year and hopes to begin construction of its Rockville, Maryland store before the end of the year. We are continuing to make every effort to expand this division in the Washington, D. C. market.

Kaufman-Straus has announced plans to enlarge its highly successful store in The Mall, Louisville, Kentucky. The store will be expanded from 80,000 square feet to 120,000 square feet, keeping pace with a major expansion of the shopping center itself.

Maison Blanche is studying plans to add selling space to one or more of its existing branches, as well as negotiating for at least one additional branch in the New Orleans area.

The Company's program of modernization continues in full swing. Newly fixtured and re-decorated floors are planned at the downtown Maison Blanche and Kaufman-Straus stores, at Franklin Simon's 34th Street and Northland, Detroit stores and at R. H. White's. Departmental and area improvements are taking place everywhere. New escalators are being installed in Hearn's, New York and in Lit Brothers' main store in Philadelphia.

In the field of electronics, we have continued to make significant strides. The Maison Blanche computer is now handling the Richards' accounts receivable and plans are being made to

add our other southern stores. The Lit's computer installation was smoothly and efficiently accomplished and the Franklin Simon accounts receivable are being transferred to the Lit computer center at this moment. Enlarged and improved use of these computers for merchandise control, re-order programs and classification merchandising promises many benefits in this and coming years.

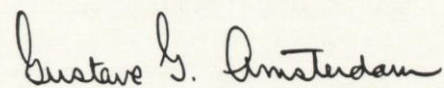
We are beginning to realize results from our Company's efforts to serve the ever-growing youth market in each of our areas. In addition, we feel that our merchandising and sales promotion programs are making our stores more interesting and exciting and that our customer acceptance is increasing throughout the areas we serve.

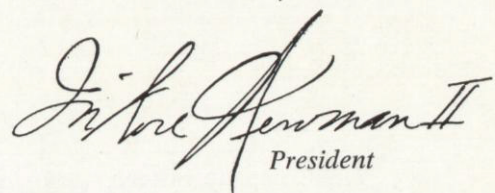
In recognition of their responsibilities and contribution to the successes of their divisions, Louis M. Frankel, President of Lansburgh's, and John F. Breyer, President of Loveman, Joseph & Loeb, were elected Vice Presidents of the Company in 1965.

We mark with deep regret the death of William F. Kelly, a member of our Board of Directors and Executive Committee since May, 1957. The counsel and friendship of Mr. Kelly, who was the President of The First Pennsylvania Banking and Trust Company and a past president of the American Bankers Association, will be greatly missed. We are pleased to welcome to our Board of Directors, John R. Bunting, Jr., an Executive Vice President of that Bank.

We again wish to thank our employees, suppliers and customers. Their loyalty has made possible the progress of the past year and justifies our confidence that 1966 will see a continuation of the Company's growth and profitability.

Respectfully submitted,


Chairman of the Board


President

April 18, 1966

Statement of Income

	YEAR (52 WEEKS) ENDED	
	January 29, 1966	January 30, 1965
Sales (including leased departments)	\$335,556,907	\$325,045,407
Deduct:		
Cost of goods sold and operating expenses		
less carrying charges	320,252,079	314,620,847
Depreciation and amortization	4,365,551	4,444,609
Interest and debt expense	2,931,969	3,050,316
	<u>327,549,599</u>	<u>322,115,772</u>
	8,007,308	2,929,635
Income of unconsolidated subsidiaries before federal income taxes (depreciation of \$646,814 and \$593,914, respectively, deducted) — Note A	493,984	551,831
Other income (net)	133,549	135,516
Minority interest (deduction)	229,667	124,157
Income before federal income taxes	<u>8,405,174</u>	<u>3,492,825</u>
Federal income taxes — Note E	3,980,000	1,400,000
Net income	<u>\$ 4,425,174</u>	<u>\$ 2,092,825</u>

Exclusive of extraordinary items which did not result from the usual or typical business operations of the period and have been credited or charged to income reinvested in business or to reserves.

See notes to financial statements, pages 9 through 11.

Statement of

ASSETS	January 29, 1966	January 30, 1965
CURRENT ASSETS		
Cash	\$ 11,400,516	\$ 9,826,540
Accounts receivable — Note B	35,914,816	35,108,638
Merchandise inventories — Note C	41,278,130	40,752,458
Supplies and prepaid expenses	4,046,487	2,968,806
TOTAL CURRENT ASSETS	<u>92,639,949</u>	<u>88,656,442</u>
 INVESTMENTS AND OTHER ASSETS		
Investments in and net receivables from unconsolidated subsidiaries — Note A and page 8	5,705,058	3,584,462
U. S. Government securities deposited as security under leases	187,585	223,588
Sundry investments and other items	910,140	1,041,195
	<u>6,802,783</u>	<u>4,849,245</u>
 PROPERTY AND EQUIPMENT — NOTE D		
Land, buildings, leaseholds, fixtures and equipment — at cost	68,689,652	69,795,450
Less accumulated depreciation and amortization	34,395,043	33,965,755
	<u>34,294,609</u>	<u>35,829,695</u>
UNAMORTIZED DEBT EXPENSE	67,321	83,514
	<u>\$133,804,662</u>	<u>\$129,418,896</u>

See notes to financial statements, pages 9 through 11.

Financial Condition

LIABILITIES	January 29, 1966	January 30, 1965
CURRENT LIABILITIES		
Accounts payable, accrued and sundry liabilities	\$ 27,864,083	\$ 25,501,448
Current portion of long term debt and mortgages not assumed	4,906,298	4,801,711
Federal income taxes — Note E		
Current	489,175	502,620
Deferred, applicable to installment sales	5,375,893	3,517,758*
TOTAL CURRENT LIABILITIES	38,635,449	34,323,537
LONG TERM DEBT (other than mortgages not assumed) — Note F	16,530,194	20,928,194
RESERVES — Note G	3,637,220	3,506,932
DEFERRED FEDERAL INCOME TAXES — Note E	3,084,777	2,728,265*
MORTGAGES NOT ASSUMED — Note D	6,086,291	6,759,480
DEFERRED CREDIT	563,524	589,139
MINORITY INTEREST	1,111,128	881,461
OWNERSHIP — Note H		
Common Stock — \$5 par value — Authorized 6,000,000 shares; outstanding 2,960,513 shares (after deducting 12,423 shares in treasury)	14,802,565	14,789,316
Other capital	20,233,442	20,217,674
Income reinvested in business — Note F	29,120,072	24,694,898
	64,156,079	59,701,888
	\$133,804,662	\$129,418,896

* Reclassified — See Note E.

City Stores Company and Consolidated Subsidiaries

Statement of Income Reinvested in Business	YEAR (52 WEEKS) ENDED	
	January 29, 1966	January 30, 1965
Balance at beginning of year	\$24,694,898	\$22,469,129
Net income	4,425,174	2,092,825
	<u>29,120,072</u>	<u>24,561,954</u>
Charges and credits (net of applicable federal income taxes):		
Recovery of prior years' federal income taxes less additional assessment and interest thereon	—	1,416,773
Gain on termination of subsidiary's pension plan less minority interest	—	216,171
Anticipated loss on real estate dispositions	—	1,500,000
Balance at end of year — Note F	<u>\$29,120,072</u>	<u>\$24,694,898</u>

Unconsolidated Real Estate Subsidiaries — Combined
Summary of Net Assets — Note A

	January 29, 1966	January 30, 1965
Land, buildings, leaseholds and equipment, less depreciation . .	\$18,756,106	\$13,573,848
Mortgages payable — current portions \$715,145 and \$570,760, respectively	12,571,089	9,715,288
	<u>6,185,017</u>	<u>3,858,560</u>
Other assets, including cash of \$110,328 and \$71,962, respectively	288,041	236,387
	<u>6,473,058</u>	<u>4,094,947</u>
Accounts payable and federal income taxes, including noncurrent items of \$444,683 and \$390,266, respectively	768,000	510,485
Net assets	<u>\$ 5,705,058</u>	<u>\$ 3,584,462</u>
Consisting of:		
Intercompany accounts with parent companies — net . . .	\$ 2,530,428	\$ 1,001,410
Ownership	3,174,630	2,583,052
	<u>\$ 5,705,058</u>	<u>\$ 3,584,462</u>

Leases:

The minimum annual rentals upon real property leased by unconsolidated subsidiaries under leases expiring more than 3 years from January 29, 1966 amounted to approximately \$275,000, of which approximately \$150,000 pertains to properties leased to City Stores Company. Certain of the leases with an aggregate minimum annual rental of approximately \$200,000 have been guaranteed by City Stores Company. Certain of the leases provide for payment of additional rental based on a percentage of sales (related to premises occupied by parent or consolidated subsidiaries) over a fixed amount and for taxes, insurance or other charges.

See notes to financial statements, pages 9 through 11.

Notes to Financial Statements

The financial statements for the preceding year, with a reclassification, are included for comparison purposes only. Reference should be made to the previously issued Annual Report for the Accountants' Report and notes relating to those financial statements.

A — PRINCIPLES OF CONSOLIDATION

The accounts of all subsidiaries are included in the accompanying consolidated financial statements, except those of certain real estate subsidiaries, the investments in which are included in the accompanying statement of financial condition at amounts equal to the net assets of such subsidiaries. If the unconsolidated subsidiaries were consolidated, the principal effect would be to increase net property and equipment by \$18,756,106 and long term debt by \$11,855,944 and to eliminate investments in and net receivables from unconsolidated subsidiaries of \$5,705,058. A summary of the net assets of these real estate subsidiaries is set forth on page 8.

B — ACCOUNTS RECEIVABLE

The Company has agreements with various banks which provide, in effect, for a form of revolving credit under which accounts receivable are assigned to the banks, and the banks remit amounts equal to 90% of the accounts assigned, withholding 10% of the uncollected balances representing the Company's equity. Under the agreements, the Company accepts reassignment of any accounts in default (as defined) as long as it continues to assign accounts.

The accounts receivable are summarized as follows:

	<u>This Year</u>	<u>Last Year</u>
Accounts receivable customers and others — after deducting \$27,351,239 and \$9,236,653, respectively, received on account of the sale of a portion of installment receivables	\$52,937,962	\$67,337,998
Less:		
Accounts receivable assigned net of equity of \$1,557,116 and \$3,269,623, respectively	14,014,045	29,426,609
Allowances for doubtful accounts	3,009,101	2,802,751
	<u>17,023,146</u>	<u>32,229,360</u>
	<u>\$35,914,816</u>	<u>\$35,108,638</u>

C — MERCHANDISE INVENTORIES — Determined principally under Retail Method

Merchandise inventories, as summarized below, are priced principally at LIFO cost and partly at the lower of cost or market. The inventories priced at LIFO cost would be approximately \$5,100,000 more for this year and last year if they had been priced at the lower of cost or market.

	<u>This Year</u>	<u>Last Year</u>
At LIFO cost	\$29,102,522	\$29,009,050
Less allowance for discounts	722,329	761,987
	<u>28,380,193</u>	<u>28,247,063</u>
At lower of cost or market	12,897,937	12,505,395
	<u>\$41,278,130</u>	<u>\$40,752,458</u>

D — PROPERTY AND EQUIPMENT

The accounts include real estate in the net amount of \$7,906,105, principally store properties, subject to mortgages which at January 29, 1966 amounted to \$6,779,589. The Company is not liable on the mortgage notes. Three liquidated real estate subsidiaries remain liable on the mortgages.

Notes to Financial Statements (Continued)

E — FEDERAL INCOME TAXES

The provision for federal income taxes includes approximately \$1,500,000 of current taxes and \$2,480,000 of deferred taxes.

The Company records income from installment sales for financial accounting purposes at the time sales are made and for tax purposes generally on the basis of cash collections. Deferred federal income taxes applicable to installment sales which previously had been shown as a noncurrent item after reserves on the statement of financial condition has been reclassified to current liabilities in compliance with the Securities and Exchange Commission requirements. Had this reclassification not been made, working capital would have been \$59,400,000, an increase of \$1,500,000 over last year.

Deferred federal income taxes includes amounts applicable to accelerated depreciation and other noncurrent taxes.

The accompanying financial statements are subject to final determination of federal, state and local taxes.

F — LONG TERM DEBT (other than mortgages not assumed)

Long term debt is summarized as follows:

	<u>This Year</u>	<u>Last Year</u>
Notes payable to bank and insurance company	\$13,852,000	\$17,710,000
4% sinking fund debentures (subordinated)	1,200,000	1,500,000
Notes payable to parent company	1,478,194	1,718,194
	<u>\$16,530,194</u>	<u>\$20,928,194</u>

Annual maturities after one year of notes payable under loan agreements with The Prudential Insurance Company of America aggregate \$1,983,000 from 1967 to 1970, \$5,583,000 in 1971, and approximately \$83,000 from 1972 to 1975. The 4% sinking fund debentures (subordinated) are payable \$300,000 annually. Notes payable to parent company are due on February 27, 1967. The loan agreements provide, among other things, for (1) the maintenance of minimum consolidated working capital of \$50,000,000, (2) restrictions on the purchase, redemption or other acquisition of the Company's stock, and (3) restrictions on the payment of cash dividends on the Company's common stock. Under the restrictions of the loan agreements, the Company is not presently permitted to pay cash dividends.

G — RESERVES

These have been provided for the following:

	<u>This Year</u>	<u>Last Year</u>
Restoration of leased properties	\$ 441,899	\$ 441,899
Termination of store operations	418,613	350,789
Excess rentals	192,879	219,439
Deferred compensation	1,083,829	994,805
Real estate dispositions	1,500,000	1,500,000
	<u>\$3,637,220</u>	<u>\$3,506,932</u>

Reserve for termination of store operations represents the estimated expense to be incurred at vacated stores, less amounts included in current liabilities. Reserve for real estate dispositions is net of expected federal income tax reduction.

H — STOCK OPTIONS

The Company's Stock Option Plan, as amended in 1964, makes available for granting to selected key executives stock options to purchase 125,000 shares of the Company's common stock. The Plan authorizes the granting of options at 95% of the market price at date of grant through 1963 and at 100% thereafter. Options are exercisable over a ten year or a five year period. During the year, options to purchase 18,650 shares were granted, and options for 2,100 shares were cancelled. At January 29, 1966, options were outstanding for the purchase of 88,600 shares at prices ranging from \$8.43 to \$12.79 per share. On April 6, 1966, options for 18,450 shares were granted at \$15.75 per share. During the year, options for 2,650 shares were exercised at prices ranging from \$8.50 to \$12.79 per share. Of the proceeds, \$13,250 was credited to capital stock and \$15,768 was credited to other capital.

I — CONTINGENCIES AND OTHER COMMENTS

The minimum annual rentals on real property leased by the Company and its consolidated subsidiaries under leases expiring more than three years from January 29, 1966 amount to approximately \$1,800,000 under leases with the unconsolidated real estate subsidiaries and \$6,500,000 under leases with others, including \$400,000 with its parent, Bankers Securities Corporation. Certain of the leases provide for payment of additional rental based on a percentage of sales over a fixed amount and for taxes, insurance or other charges. See page 8 for minimum rentals payable by unconsolidated real estate subsidiaries.

Certain leases provide for the restoration of the related properties to their original condition, in connection with which, upon vacating such properties, there may be incurred costs in an amount presently indeterminable. Accordingly, no provision has been made in the accounts for such costs, except as to \$441,899 (included in the tabulation of reserves in Note G) recorded on the acquisition of a subsidiary in a prior year.

Pending litigation and claims asserted against the Company, in the opinion of management, will have no material adverse effect on the accompanying financial statements.

The cost of goods sold, buying and occupancy expenses were \$252,204,528 and selling, general and administrative expenses and provision for doubtful accounts were \$68,047,551.

J — PENSION PLANS

The Company's non-contributory pension plans (as amended) cover, generally, employees with 20 years of service who are not participants in any other plan to which the Company contributes. The plans provide for retirement at age 65 with no vesting of rights. Although the Company does not presently contemplate funding these plans, it may do so in the future. The Company may amend, modify or terminate the plans in whole or in part at any time. The benefits paid under these plans, which are charged to operations as paid, approximated \$299,000 and will increase to an annual amount of approximately \$750,000 in 1976. Payments under informal arrangements to presently retired employees were \$353,000 this year and will gradually decline, based on mortality factors. The amount which would have been necessary to fund these plans at January 29, 1966, with respect to past services as related to employees 55 years of age and over and retired employees, has been estimated by the Company's consulting actuary at approximately \$3,300,000 after taxes. The past service cost for other eligible employees has not been computed.

S. D. LEIDESDORF & CO.
CERTIFIED PUBLIC ACCOUNTANTS
NEW YORK, N. Y.

Accountants' Report

To the Board of Directors
City Stores Company
New York, N. Y.

We have examined the consolidated statement of financial condition of City Stores Company and consolidated subsidiaries as at January 29, 1966, the related consolidated statements of income and income reinvested in business for the year (52 weeks) then ended and the combined summary of net assets of unconsolidated real estate subsidiaries as at January 29, 1966. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above, together with the notes to financial statements, present fairly the consolidated financial position of City Stores Company and consolidated subsidiaries at January 29, 1966, the consolidated results of their operations for the year (52 weeks) then ended and the combined net assets of the unconsolidated real estate subsidiaries at January 29, 1966, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

New York, N. Y.
April 14, 1966

S. D. LEIDESDORF & CO.

Historical Comparison

	January 29, 1966	January 30, 1965	February 1, 1964	February 2, 1963	February 3, 1962
Operations*					
Sales	\$335,557,000	\$325,045,000	\$313,596,000	\$309,153,000	\$286,886,000
Index of sales	117%	113%	109%	108%	100%
Income or <i>loss</i> before federal income taxes .	8,405,000	3,493,000	<i>1,694,000</i>	<i>3,275,000</i>	1,518,000
Federal income taxes or <i>credit</i>	3,980,000	1,400,000	<i>1,020,000</i>	<i>1,680,000</i>	—
Net income or <i>loss</i> . .	4,425,000	2,093,000	<i>674,000</i>	<i>1,595,000</i>	1,518,000
Income per common share	1.50	0.71	—	—	0.54
Dividends					
Common stock	—	—	—	1,304,000	1,683,000
Per share Common stock	—	—	—	0.45	0.60
Financial					
Current assets	92,640,000	88,656,000	86,914,000	92,667,000	98,843,000
†Current liabilities . .	38,635,000	34,324,000	32,496,000	39,555,000	40,107,000
†Working capital . . .	54,005,000	54,332,000	54,418,000	53,112,000	58,736,000
†Current ratio	2.4	2.6	2.7	2.3	2.5
Accounts receivable—net of receivables sold . .	49,929,000	64,535,000	62,968,000	76,385,000	66,245,000
Bank remittances on portion of receivables	<i>14,014,000</i>	<i>29,427,000</i>	<i>28,832,000</i>	<i>38,097,000</i>	<i>17,060,000</i>
Inventories	41,278,000	40,752,000	39,116,000	39,775,000	32,944,000
Property and equipment — net	34,295,000	35,830,000	38,319,000	41,614,000	42,512,000
Long term debt	16,530,000	20,928,000	25,086,000	29,569,000	32,840,000
Ownership					
Common stock equity	64,156,000	59,702,000	57,476,000	58,150,000	59,869,000
Common stock equity per share . . .	21.67	20.18	19.43	19.66	20.86
Number of common shares outstanding					
Average during year . .	2,958,000	2,957,863	2,957,863	2,897,000	2,804,000
At end of year	2,960,513	2,957,863	2,957,863	2,957,863	2,869,453

Italics denote negative figures.

* Exclusive of extraordinary items which did not result from the usual or typical business operations and have been credited or charged to income reinvested in business or to reserves.

† Restated — See third paragraph, page 3 of this report.

City Stores... THINKS NEW!

1



1. New Lowenstein main store and 25 story apartment complex now under construction in downtown Memphis.
2. Officials congratulate John F. Breyer, Loveman's President, at opening of new 88,000 square feet Huntsville, Alabama, store on March 2, 1966.
3. Rendering of Lit Brothers new store of 165,000 square feet in the exciting Plymouth Meeting Shopping Center northwest of Philadelphia. The store will open this fall.
4. Gardens and an open mall adjoin W. & J. Sloane's latest store in the multi-million dollar Constitution Plaza in downtown Hartford, Connecticut.
5. One of several departments emphasizing the "Young Individualist" look on the handsome new fourth floor of Franklin Simon's New York store.

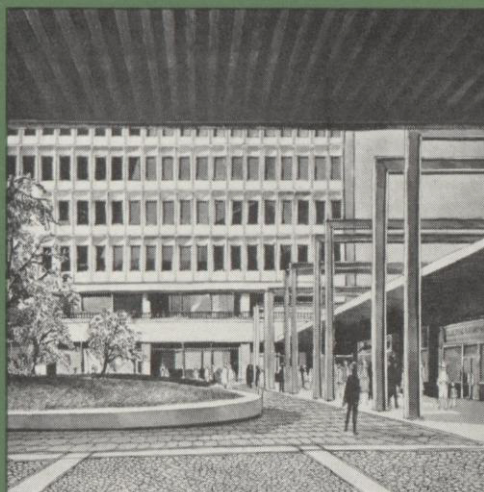
2



3



4



5



